

Cooperative management, grazing, and sale of members' cattle. A nonprofit organization formed to manage, graze, and sell its members' cattle is providing a direct business service to its members and does not qualify for exemption as an agricultural organization.

Advice has been requested whether the organization described below qualifies for exemption from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954.

The organization was formed under State law as a nonprofit, non-stock cooperative corporation to handle, graze, care for, and manage the cattle of its members. The organization carries out these operations on a range which it operates under a permit from a governmental agency. In actual operation the organization provides such supplies, materials, feed, and equipment as may be useful or necessary for the handling and breeding of said livestock. It may also sell said livestock for the members.

Any person who owns ten head of range cattle may be admitted to membership. Members are assessed fees on the basis of the number of cattle owned. A percentage of the proceeds from the sale of cattle is retained by the organization to help meet expenses of operation, with the balance being remitted to members. Expenses are mainly for wages, feed and grazing, and farm operations.

Section 501(c)(5) of the Code provides for the exemption from Federal income tax of agricultural organizations.

Section 1.501(c)(5)-1 of the Income Tax Regulations provides that the organizations contemplated by section 501(c)(5) of the Code as entitled to exemption from income taxation are those which (1) have no net earnings inuring to the benefit of any member, and (2) have as their objects the betterment of the conditions of those engaged in such pursuits, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

The cooperative management, grazing, and sale of members' cattle does not of itself better the conditions of those engaged in agricultural pursuits, improve the grade of their products, or develop a higher degree of efficiency in their operations within the meaning of the cited sections of the Code and regulations. The principal purpose of the organization is to provide a direct business service for its members' economic benefit. See Rev. Rul. 66-105, 1966-1 C.B. 145, which holds that an organization composed of agricultural producers whose principal activity is marketing livestock for its members does not qualify for exemption under section 501(c)(5) of the Code.

Accordingly, the organization does not qualify for exemption from Federal income tax as an organization described in section 501(c)(5) of the Code.